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SUBJECT: MOROCCO'S CUMBERSOME INVESTMENT CLIMATE

REF: A. Casablanca 11

¶1. (SBU) Summary: Despite the rising inward investment trend in the last three years, discussions with government and diplomatic interlocutors, civic society, and more than 20 U.S. businesses operating in Morocco reveal that the country's bureaucratic red tape, compounded with shortcomings in the country's national and regional investment centers, frustrates and at times deters small and medium size investors in Morocco. USAID's efforts to improve the country's regional investment centers will help to reverse this disenchantment, but real improvement in Morocco's investment climate will depend on the government's willingness to rethink and restructure its modus operandi. End Summary.

Morocco's Investment Institutions

¶2. (SBU) To minimize and accelerate all administrative procedures related to investment in Morocco, the government established Morocco's Centre Regional d'Investissement (CRIs) and the country's national Agence Marocaine de Developpement des Investissements (AMDI), formerly the Direction des Investissements Exterieurs (DIE). Morocco's 16 CRIs, created in 2002, aim to make foreign and domestic investment easier through the centralization of all concerned administrations. Once fully operational in late 2009, AMDI will also be responsible for encouraging foreign investment by actively seeking investors abroad, including the U.S., and developing investment poles within Morocco.

A Fragile Investment Climate

¶3. (SBU) Despite the rising inward investment trend in the last three years, discussions with government and diplomatic interlocutors, civic society, and more than 20 U.S. businesses operating in Morocco reveal that the country's bureaucratic red tape, compounded with shortcomings in the country's national and regional investment centers, frustrates and at times deters investors. According to Bruno Fernandez, Spain's Economic Counselor in Casablanca, Morocco's investment climate has deteriorated. His department's most recent report details widespread losses in Spanish investment in the last eight months. (Note: Some of the lost investment is likely linked to a downturn in the Spanish economy, particularly the real estate sector. End Note.)

¶4. (SBU) Discussions with more than 20 U.S. businesses at a recent business roundtable held in Casablanca revealed similar concerns.

Some companies described the investment climate as cumbersome and opaque, citing difficulties navigating Morocco's CRIs. The former director general of the country's national investment center, Hassan Bernoussi, went further by noting that, "Morocco's investment climate is in disorder and in need of structural reform". Senior government officials are having a difficult time piecing together a modus operandi, added Bernoussi, who believes that Morocco's CRIs should be phased into AMDI to rationalize this system. This development, he argued, will enable Morocco to begin consolidating and simplifying the investment structure in the country.

15. (SBU) Citing another obstacle in Morocco's investment climate, Kjartan Sorenson of USAID's "Improving the Business Climate" program, argued that the investment climate varies in each region depending on the CRI director and more importantly on his/her relationship with the Wali, who is appointed by the King and has oversight responsibility over the CRI. A change in leadership can mean a change in a region's investment strategy, added Sorenson. Another limiting factor is that investments exceeding USD 23 million are dealt with by a special ministerial committee chaired by the Prime Minister, which meets once a year, and are outside the purview of CRI.

Formal and Informal Solutions

16. (SBU) In an effort to improve the country's investment climate, the government has unveiled several recent institutional and legal measures. In 2008, Casablanca's CRI in conjunction with USAID launched a USD 270,000 project to improve harmonization of

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investment-related procedures within the city's CRI. Furthermore, a recently-signed interministerial pact, proposes legislative reforms, which eliminate the previously existing minimum capital requirement for investment, create a harmonized business registration form for investors, and eliminates requirements for certified copies of selected documents. Moreover, the Ministry of Interior has recently acquired software called E-Facilitation, which will enable several government entities involved in the investment process to easily share information. E-facilitations, which will be fully operational in five years, will also make basic information available to foreign investors abroad, including the point of contact's phone numbers, email, and picture.

17. (SBU) In addition to governmental reforms, small and medium size investors are using informal conduits with great success to overcome some of the shortcomings in the country's national and regional investment centers. Rather than recommending Morocco's CRIs and AMDI, the Spanish Consulate connects prospective investors with companies who have had success in penetrating the market. The success rate is outstanding, according to Fernandez. Similarly, the American business community at the business roundtable held in Casablanca unanimously agreed to create an E-forum that will connect U.S. prospective investors with U.S. companies already operating in Morocco who have developed best practices.

Comment

18. (SBU) The progress made in developing institutions and laws that encourage foreign investment has been hampered by the inability of the government to address the shortcomings of CRI and AMDI. In order to capitalize on the Free Trade Agreement with the United States, Morocco must work on improving its investment climate - this means simplifying business procedures and creating a clear investment structure. Without these improvements, international investors who don't know their way around will find it difficult to succeed in their local ventures, remain in country, and create sustainable employment. Even more importantly to the country's long-term development, if these improvements are made, small local businesses stand to benefit the most. End Comment.